

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of

MOTION BY LOUISVILLE GAS AND)
ELECTRIC COMPANY TO RECOGNIZE)
NEW COST ELEMENT IN ITS FUEL)
ADJUSTMENT CLAUSE)

CASE NO.
8826

O R D E R

On May 6, 1983, Louisville Gas and Electric Company ("LG&E") filed a motion asking the Commission to recognize as a new cost of generation, the annual charges assessed by the federal government for use of the McAlpine Dam and to either grant LG&E leave to include said charges in the calculation of its fuel adjustment clause ("FAC") or grant it leave to eliminate from the FAC calculations a fraction of the kilowatt hours attributable to hydroelectric generation.

LG&E stated that it is currently paying an annual fee of \$95,000 to the Federal Energy Regulatory Commission ("FERC") for use of the McAlpine Dam. A new annual fee is to be established by FERC retroactive to September 1, 1981. FERC has set an upper limit on the new charge at \$2,621,000 and expressed an intent to resolve the annual charge rulemaking by the end of the year. Thus, the potential liability is currently approximately \$4 million and is growing at \$210,500 per month.

LG&E requests that it be allowed to recover the \$210,500 per month through the FAC starting with the FAC filing for June

billings. LG&E supports this request on the basis that it is faced with serious impairment of its financial integrity; the license fee is based on the energy cost to replace hydroelectric generation; and had LG&E not incurred the license expense, the fuel cost of replacement generation would have been passed through the FAC.

The FAC regulation, 807 KAR 5:056, does not provide for recovery of license fees or other hydroelectric expenses. The regulation provides for recovery of the invoice price of fuel less discounts, per FERC account 151, and the net energy costs of energy purchased on an economic dispatch basis. Therefore, the Commission is of the opinion that the contingent license fee expense cannot appropriately be recovered through the FAC. If LG&E's financial integrity is impaired by this contingent expense a special surcharge may be necessary.

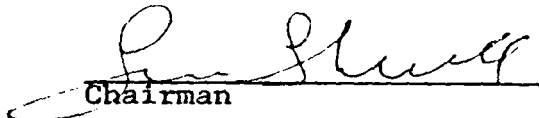
The Commission, having considered the motion and being advised, is of the opinion and finds that:

1. LG&E has a contingent retroactive liability of approximately \$4 million for use of the McAlpine Dam. This liability is growing at a rate of \$210,500 per month.
2. The license fee expense cannot appropriately be recovered through the FAC.
3. Upon appropriate showing of financial impairment by LG&E, the Commission would consider a recovery method other than the FAC.

IT IS THEREFORE ORDERED that LG&E's motion be and it hereby is denied.

Done at Frankfort, Kentucky, this 23rd day of May, 1933.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary